



Let's Not Forget Financial Competitiveness*

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Jeff Immelt, GE's Chairman and CEO as well as President Obama's Chairman of the new Council on Jobs and Competitiveness, was quoted recently in the *Financial Times* as saying that the United States needs to be a country that "builds things" to revive the economy and create jobs.¹ He is right.

At the same time, we need to ensure that the United States also is a country that "finances things" and encourages "investments in things" as competitively as any financial center on the planet. If we are united in "winning the future," as President Obama has declared, then let's not forget the economic imperative of U.S. financial market competitiveness.

Our simple and shared national aspiration should be to ensure that U.S. financial markets are the most attractive, secure, and welcoming ones in the world to finance, invest, and raise capital, which in turn support production, trade, innovation, growth, and jobs.

This may sound like a heretical point so soon after the worst financial crisis in history and enactment of the Dodd-Frank Act. Yet, we still need competitive, world class financial institutions and markets to finance "things" like manufacturing and exports.

Our current economic predicament of stubbornly high unemployment as well as an uncertain economic future demands a greater balancing of financial stability and economic reality. We need financial institutions that are well governed, ethically run, and prudently regulated for capital, liquidity, and risk. Good management is the first line of defense, followed by capable supervisors as the second line of defense. However, as a practical matter, we also need those same companies to be able to compete fairly to serve their

*The information contained in this newsletter does not constitute legal advice. This newsletter is intended for educational and informational purposes only.

¹"Obama gives GE chief key jobs role," *Financial Times*, January 22, 2011, p. 1.

clients — from Main Street consumers and businesses to corporate America — to provide a strong, unsurpassed financial foundation for sustained economic recovery and growth.

We have choices. Here are three practical actions to help ensure a more balanced and effective outcome as the real work arising from Dodd-Frank begins.

First, the President can publicly instruct his direct reports to fully implement both the letter and the spirit of his January 18th Executive Order — “Improving Regulation and Regulatory Review.” He can direct Treasury Secretary Geithner to apply Section 1 of his new Executive Order “promoting economic growth, innovation, competitiveness, and job creation” to all of the rules and actions the new Financial Stability Oversight Council that he chairs.

These actions include the notice of proposed rulemaking for the designation of nonbank financial companies for regulation by the Federal Reserve, our new financial stability regulator. They also include the new rule coming later this year on new prudential standards, which are required to be “more stringent” and “increase in stringency” based on a risk-based assessment yet to be crafted by the Council and regulated by the Board of Governors.

For good measure, Secretary Geithner can also use his bully pulpit as Council chair to encourage his fourteen other fellow Council members to start using their offices now to promote the spirit of the President’s Executive Order, even if the order doesn’t strictly bind them.

Second, since the President’s Executive Order by definition exempts the independent financial agencies, the two new Congressional chairmen — Senate Banking Committee Chairman Tim Johnson (D-SD) and House Financial Services Committee Chairman Spencer Bachus (R-AL) — can use their considerable “sun shine” power of oversight hearings to ensure a balanced and effective outcome for all Dodd-Frank rules.

More importantly, they could pass new legislation in the next 30 days to ensure that all future financial rules are subject to a more rigorous, real world economic impact assessment. All new rules should contain an equally rigorous analysis of the rule’s potential impact on innovation, competitiveness, growth, and yes, even new job creation. To paraphrase the new Speaker of the House of Representatives John Boehner (R-OH), we simply don’t

need more job-killing rules at this point in our fragile economic recovery, especially with unemployment stuck where it is at unacceptable levels.

Third, the financial services industry can play an important role as well. As I argue in my new book, *Managing to the New Regulatory Reality: Doing Business under the Dodd-Frank Act*, the industry needs to do several things differently in the future.

For starters, the industry can go back to the recent financial market competitiveness reports by Mayor Michael Bloomberg and Senator Schumer, the Financial Services Roundtable, U.S. Chamber of Commerce, and others, and resurrect those recommendations that not only make sense in our new regulatory reality but also can strengthen our economy. As the Bloomberg-Schumer report correctly noted in 2007, getting the legal, regulatory, and talent/skills (e.g., immigration) regimes right from a business investing perspective is critical for our financial markets. The same goes for corporate tax, ease of doing business, and political stability — if we want to see both our markets and our economy thrive.

Next, the financial industry can start its own diagnostic of the Dodd-Frank Act through the lens of the President's new Executive Order — “promoting economic growth, innovation, competitiveness, and job creation.” Provisions such as the so-called Volcker rule, swap market changes, artificial size limits that know no G20 equivalent, price controls on interchange fees, “heightened” prudential standards, and resolution planning are good starting points. For good measure, an independent review of the dated 1956 Bank Holding Company Act and the 1978 International Banking Act are in order as well.

Finally, as I also argue in my new book, the financial services industry needs to learn and fully embrace a new way of communicating with policymakers and regulators, speaking not just in the language of quarterly earnings and shareholder value creation, but more importantly in a new language of the impact of financial laws and regulations on economic growth and job creation.

Reform fatigue is not an option, not now. An even greater investment in public policy debate is required now than in the past few years, not less.

In summary, the current attention on U.S. competitiveness in manufacturing and trade is a critical national priority, on a par with other economic

imperatives, such as stopping runaway government spending and reversing our wealth-destroying national debt. But, we can't ignore the equally vital imperative for responsible innovation and competitiveness for all financial firms doing business in U.S. markets. If we do, we put our own needed economic recovery — and future standing as a global financial power — at even greater risk.

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